CHESNARA IFRS 17 & IFRS 9 UPDATE

March 2023

IFRS 17 and IFRS 9 result in no change to growth ambition, value or cash generation

NO CHANGE TO GROWTH AMBITION, VALUE OR CASH GENERATION

Chesnara

1 MAXIMISE THE VALUE FROM EXISTING BUSINESS

- **No change** to solvency ratio or cash generation
- **No change** to group EcV
- **No change** to dividend expectation

2 ACQUIRE LIFE & PENSION BUSINESSES

- **No change** to our group acquisition strategy or capability for future M&A

3 ENHANCE VALUE THROUGH PROFITABLE NEW BUSINESS

- **No change** to the expected profitability and future new business projections

Please note – *the numbers contained within the following presentation are draft and currently unaudited, so are therefore subject to change*

Timeline	
March 2023	FY 2022 results presented to the market on an IFRS 4 basis
	IFRS 17 initial update presented to the market (this presentation)
September 2023	HY 2023 results presented to the market on an IFRS 17 basis

IFRS 17 and IFRS 9 result in no change to the group's growth ambition, value or cash generation

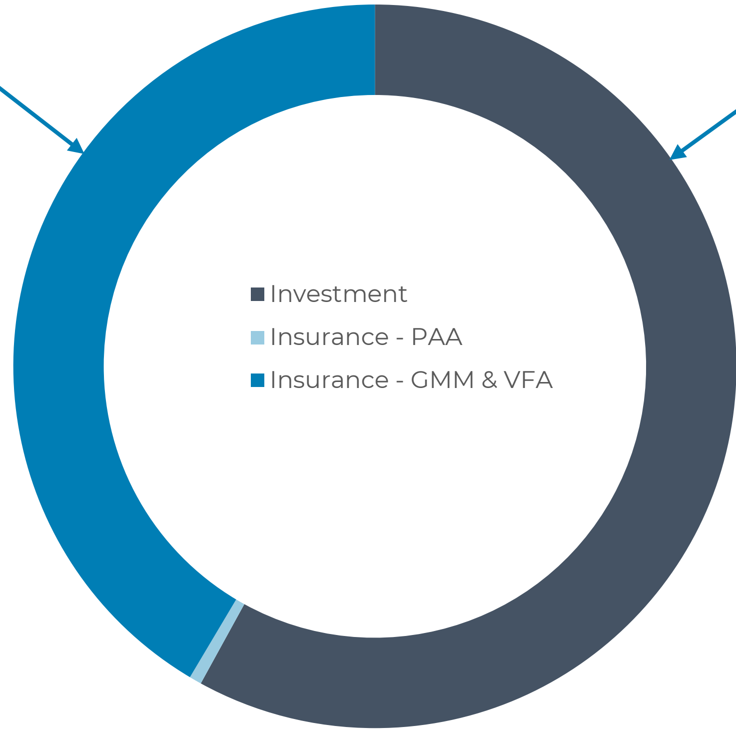
Insurance liabilities

42%

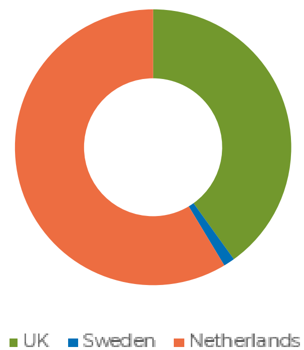
(PAA <1%)

Investment liabilities

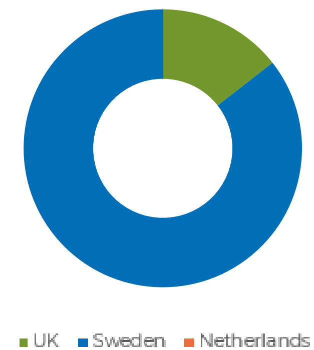
58%



Insurance liabilities by division



Investment liabilities by division



**The split between insurance and investment liabilities is based on the opening balance sheet date 1 January 2022 and therefore excludes the impacts of CASLP and Robein Leven*

Less than half of the group's liabilities are insurance contracts

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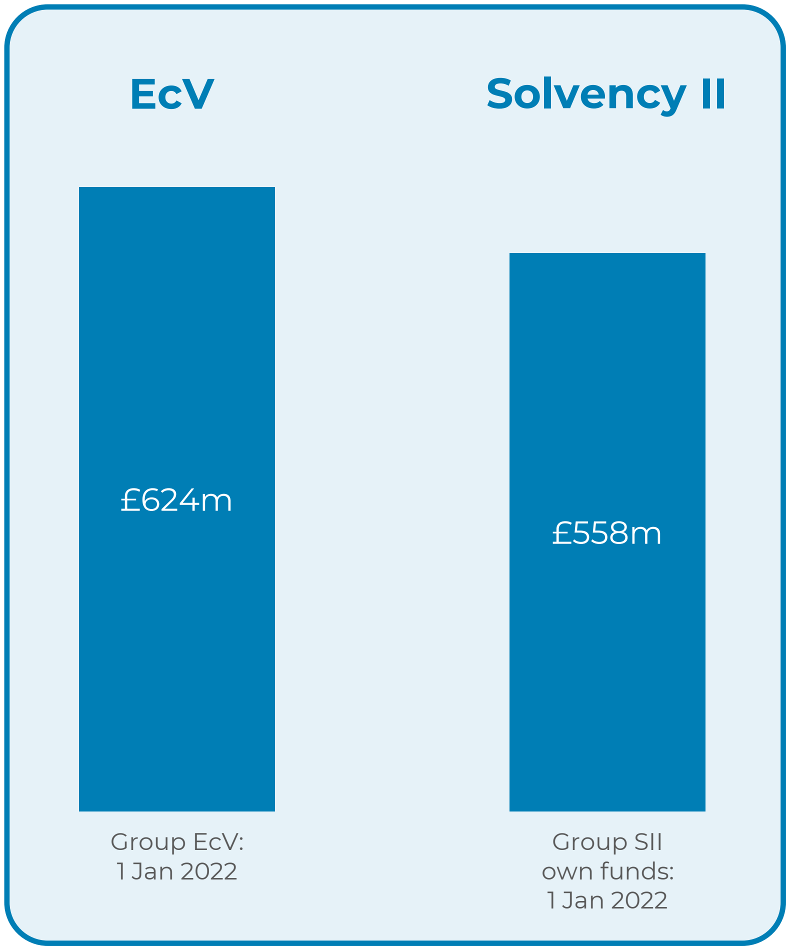
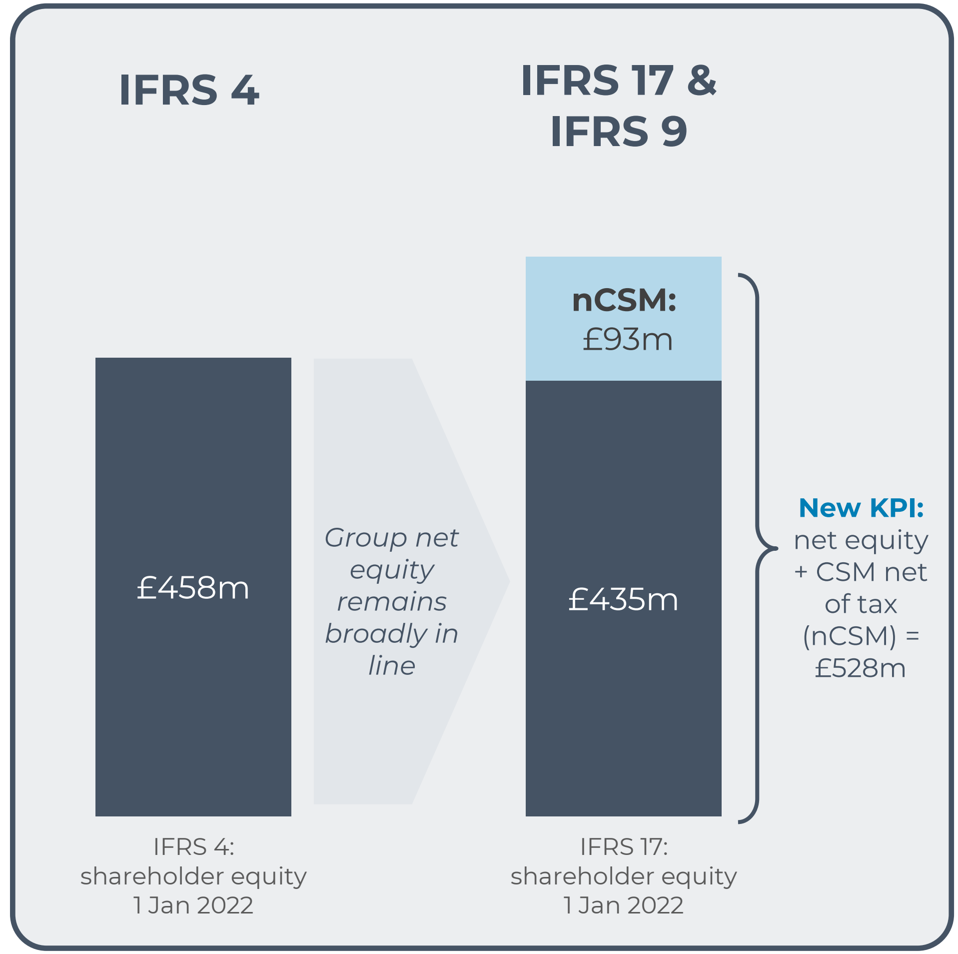
IFRS 4 IFRS 17

The above illustration represents a simplified view of our products

IFRS 17 leads to the creation of a CSM, which is released over the life of our products

HOW OUR OPENING BALANCE SHEET WILL CHANGE





As at the end of 2022, IFRS 4 net equity has fallen to £333m, partly due to the accounting mismatch for Scildon. Everything else being equal, we'd expect there to be a lower impact to IFRS net equity under IFRS 17 compared to IFRS 4.

IFRS shareholder equity is broadly consistent across IFRS 4 and IFRS 17

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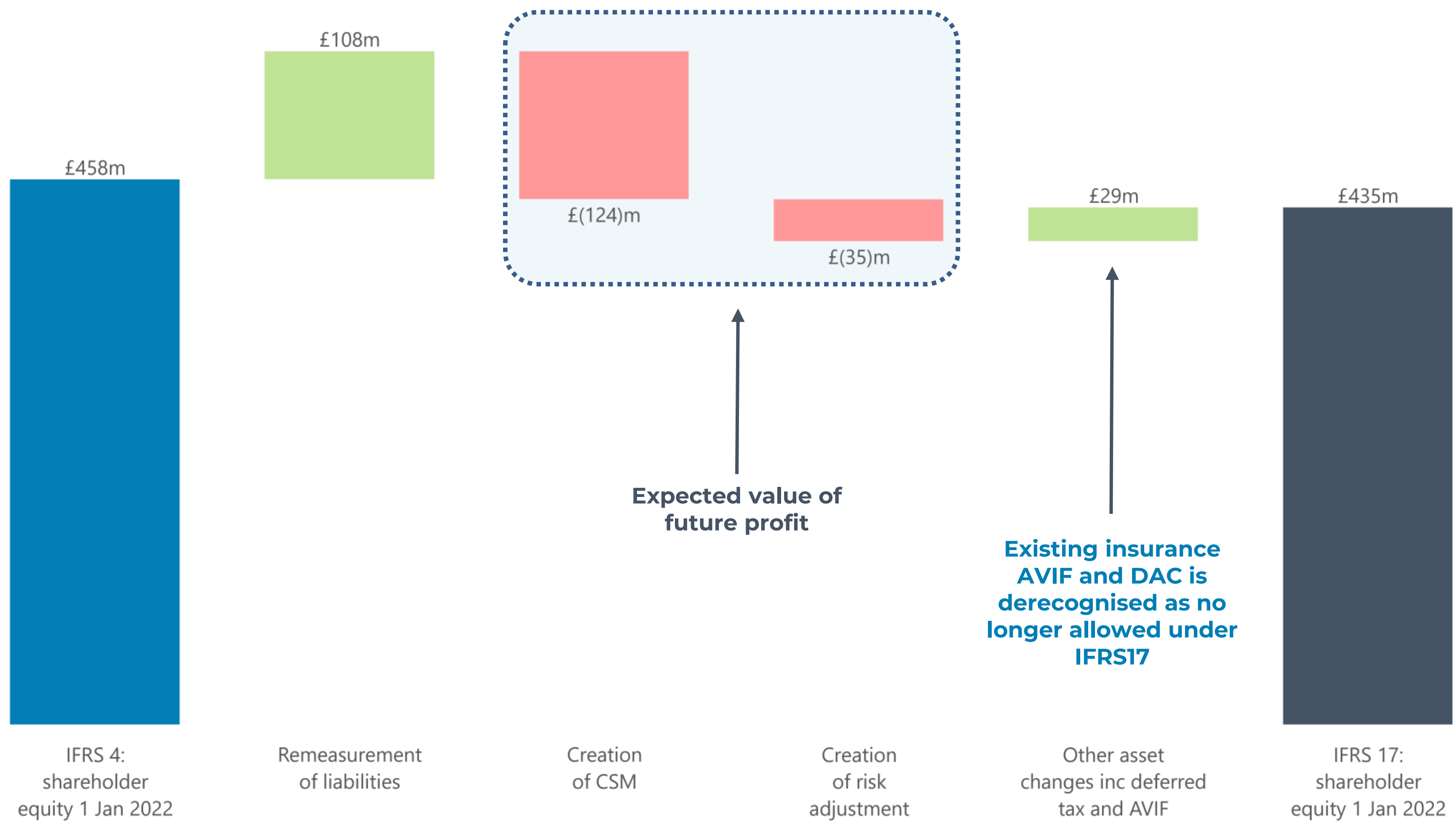
HOW IFRS 17 WILL IMPACT OPENING NET EQUITY



Group net equity under IFRS 17 at the opening balance sheet is broadly in line with IFRS 4

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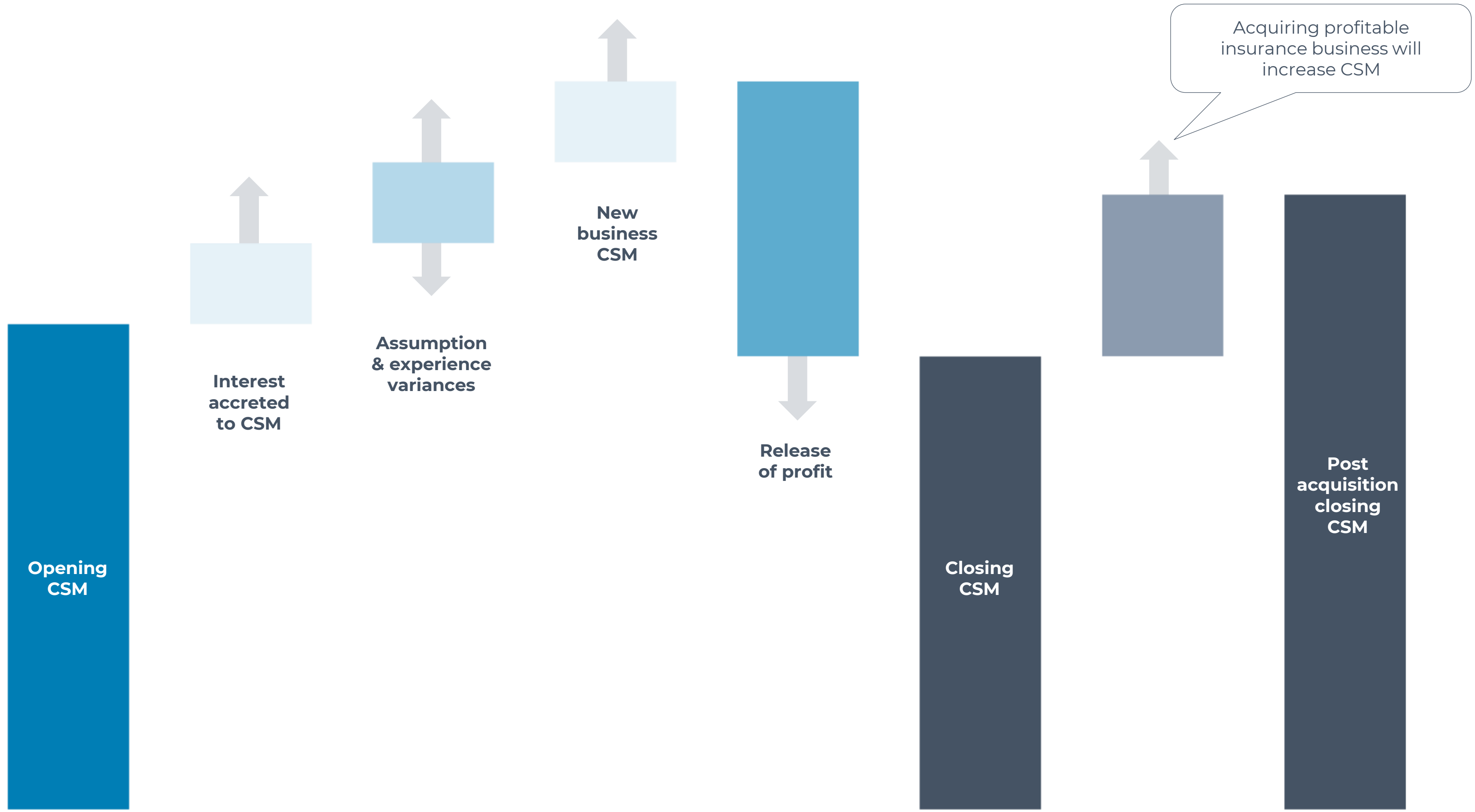
HOW CSM WILL MOVE OVER TIME



The boxes are not drawn to scale, and provide an indicative view only

There are a number of components that will impact CSM each year

CSM MOVEMENT – WHAT ARE THE COMPONENTS

Interest accreted to CSM

Interest will be added to the underlying balance each year based on investment return at the applicable locked-in rate for GMM and current rate for VFA.

Assumption & experience variances

More changeable element which contains the impacts arising from market movements and changes in assumptions implemented to the in-force book, during the period.

CSM components

The CSM represents a stock of future profits which is released to P&L over the duration of the insurance contracts

New business CSM

Additional future profits recognised from new business written in the period. The value will be released over the life of the policies in the same way as the existing CSM.

Release of profit

Reflects the gradual release of unearned insurance profits as the insurance service is provided over time.

There are a number of components that will impact CSM each year

SUMMARY OF WHAT THE IFRS 17 INCOME STATEMENT WILL LOOK LIKE

Simplified IFRS 17 Income Statement (illustrative)
Insurance revenue
Insurance service expenses
Net insurance service result
Net investment income
Net finance expenses from insurance contracts
Changes in investment contract liabilities
Net investment result
Fee income
Non-attributable expenses
Net income/(loss)

Net insurance service result: new distinct insurance business result: comprises the net result from providing insurance services in respect of current service only. Future service impacts will hit the CSM

Net investment result: new separate investment result: contains the investment return earned on assets together with the financial impacts from insurance contracts

Other income and expenses: fee income in respect of investment business and expenses associated with managing the non-insurance business

The income statement will separate results by insurance and investment contracts

HOW IFRS 9 WILL AFFECT THE GROUP

	IAS 39 → IFRS 9
Classification and measurement basis	• Reduced number of classification and measurement models for financial instruments and applies a single classification approach to all types of financial assets • Consistent with how they are currently measured, the majority of financial instruments will be measured at **fair value through profit and loss**
Mortgage portfolio	• Currently measured at amortised cost • Will be **reclassified at fair value through profit and loss** to match the corresponding liabilities in order to reduce the impacts of an accounting mismatch
Impairment	• A single impairment model for all financial instruments which recognises expected credit losses at each reporting period • Due to the short term nature of our financial instruments and the minimal historical losses on these asset classes this is **expected to be nil**
Disclosure	• Additional disclosures required containing the carrying amounts of financial instruments under each measurement category and the expected credit losses will be required

No significant change expected from the transition from IAS 39 to IFRS 9

CONCLUSION AND KEY MESSAGES

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Appendices

APPENDIX 1: SUMMARY OF OUR IMPLEMENTATION CHOICES

	UK	Movestic	Scildon	Waard
Measurement basis	A combination of the General Measurement Model and the Variable Fee Approach is applied	The Premium Allocation Approach is applied for all Insurance business	A combination of the General Measurement Model and the Variable Fee Approach is applied	A combination of the General Measurement Model and the Variable Fee Approach is applied
Transition approach	Transition balance sheet is calculated using the fair value approach	Transition balance sheet is calculated using the fair value approach	Transition balance sheet is calculated using the fully retrospective approach to date of acquisition	Transition balance sheet is calculated using the fully retrospective approach to date of acquisition
Contractual Service Margin	Calculated at portfolio level applicable to Measurement Model and amortised according to Coverage Units	Not Applicable for PAA	Calculated at portfolio level applicable to Measurement Model and amortised according to Coverage Units	Calculated at portfolio level applicable to Measurement Model and amortised according to Coverage Units
Discount rates	Bottom-up approach using risk-free rate applied in all cases. Recognised through P&L	Bottom-up approach using risk-free rate applied in all cases. Recognised through P&L	Bottom-up approach using risk-free rate applied in all cases. Recognised through P&L	Bottom-up approach using risk-free rate applied in all cases. Recognised through P&L
Risk adjustment measurement	Derived using a 'Cost of Capital' approach at a portfolio level	Derived using a 'Cost of Capital' approach at a portfolio level	Derived using a 'Cost of Capital' approach at a portfolio level	Derived using a 'Cost of Capital' approach at a portfolio level
Asset measurement basis	Assets predominantly recorded at Fair Value in line with IFRS 9 regulations. Amortised cost used on an exception basis	Assets predominantly recorded at Fair Value in line with IFRS 9 regulations. Amortised cost used on an exception basis	Assets predominantly recorded at Fair Value in line with IFRS 9 regulations. Amortised cost used on an exception basis	Assets predominantly recorded at Fair Value in line with IFRS 9 regulations, including the mortgage loan portfolio. Amortised cost used on exception basis

APPENDIX 2: CHANGE IN ACCOUNTING TREATMENT BETWEEN IFRS 4 AND IFRS 17

	IFRS 4	IFRS 17
CSM	No equivalent: implicit margins are added and included within the insurance liabilities value.	Explicit margin equal to future profit yet to be earned, which is then amortised to P&L based on service provided to policyholders
Risk Adjustment		Explicit stresses for non-financial risk used to calculate a risk adjustment. The run-off of the risk adjustment also contributes to future profit.
New Business Profit	Expected profits are recognised on day 1 and taken to P&L.	Expected day 1 profits are deferred through the CSM. New business losses are taken to the P&L at outset.
Non-economic Assumption Changes	Prudent assumptions with impact from assumption changes being recognised in P&L.	Best estimate assumptions with any assumption changes relating to future service adjusting the CSM
Financial Assumption Changes	Impact recognised immediately in P&L.	Impact of changes to financial assumptions continue to be recorded through P&L for GMM products (generally non-linked business) but will be recorded in the CSM for products measured under VFA (generally unit-linked business).
Investment Variances	Variances to expected returns are recorded in investment variance.	No change, variances to expected returns are recorded in investment variance.
Expenses	Attributable and non-attributable expenses are included within the insurance liabilities.	Non-attributable expenses are not included within IFRS 17 insurance liabilities, these are recognised as they are incurred in P&L.
Non-Insurance Business	*Approach to non-insurance business is unchanged.*	

APPENDIX 3: GLOSSARY OF TERMS

Term	Explanation
Insurance liabilities	Financial obligations in respect of insurance contracts. Included within the scope of IFRS 17.
Investment liabilities	Financial obligations in respect of investment contracts. Outside of the scope of IFRS 17.
Measurement model	Approach to measuring insurance liabilities where estimates are remeasured in each reporting period. Three alternatives exist, the General Measurement Model, the Variable Fee Approach and the Premium Allocation Approach.
General measurement model	The General Measurement Model (GMM) is the 'default' measurement model, which applies to insurance contracts with limited, or no pass-through of investment risks to policyholders.
Variable fee approach	The Variable Fee Approach (VFA) is the measurement model applied to insurance contracts with significant investment-related pass-through elements.
Premium allocation approach	Premium Allocation Approach (PAA) is a simplified measurement model which can be applied to short-term contracts.
Fair value approach	Transition approach that uses the price that would be received for an asset in an orderly transaction between market participants at the measurement date.
Fully retrospective approach	Transition approach where the Contractual Service Margin (CSM) at the date of transition to IFRS 17 will be based on an assessment of the CSM for each group of contracts at inception of the group together with a roll-forward of those amounts to the transition date.
Coverage units	Standard unit of life insurance coverage used as a proxy for the amount of benefit provided. Used within IFRS 17 to facilitate appropriate allocation of CSM across reporting periods.
Contractual service margin (CSM)	The CSM represents a stock of future profits which is released to P&L over the duration of the insurance contracts.
Risk adjustment	Additional reserve held for non-financial risks.

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